

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----069895 171811Z /42

O R 171718Z AUG 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC IMMEDIATE 6581
INFO AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL NAPLES
AMCONSUL PALERMO

C O N F I D E N T I A L SECTION 1 OF 2 ROME 13374

EXDIS

FOR EUR/WE

E.O. 11652: GDS
TAGS: OVIP, IT
SUBJECT: SECRETARY'S ROME STOPOVER--BRIEFING MATERIAL

1. REACTION TO ANDROTTI'S US VISIT. THE PRIMARY POLITICAL DEVELOPMENT SINCE PRIME MINISTER ANDREOTTI'S SUCCESSFUL VISIT TO THE UNITED STATES IS THE DEGREE TO WHICH IT INCREASED HIS PERSONAL PRESTIGE AND PUBLIC IMAGE, AND THAT OF THE MINORITY GOVERNMENT HE LEADS. THE TRIP OCCURRED AT THE CONCLUSION OF THE INTERPARTY PROGRAM AGREEMENT, WHICH MANY OBSERVERS INTERPRETED AS A FORMULA FOR PROVIDING GREATER POLITICAL AND GOVERNMENTAL STABILITY OVER THE NEXT YEAR OR SO. BY EXTENSION, MANY ITALIANS PERCEIVE THE EXCEPTIONAL HOMAGE PAID TO ANDREOTTI BY PRESIDENT CARTER AS U.S. APPROBATION FOR THE ACCORD, AND, IN GENERAL, FOR ANDREOTTI'S ADROIT UTILIZATION OF THE PCI'S CONSIDERABLE PARLIAMENTARY STRENGTH WHILE CONTINUING TO EXCLUDE THE COMMUNISTS FROM DIRECT PARTICIPATION IN THE COUNTRY'S GOVERNANCE.

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2. HAVING BEEN EXCLUDED, AS LEADER OF THE GOVERNMENT, FROM PARTICIPATION IN THE LENGTHY INTERPARTY PROGRAM ACCORD NEGOTIATIONS LED BY DC PARTY HEAD MORO, ANDREOTTI TOOK ADVANTAGE OF THE SUMMER LULL AND THE PARLIAMENTARY RECESS TO REGAIN THE INITIATIVE AND TO CONSOLIDATE HIS POSITION BY CALLING A SURPRISE MEETING OF THE PARTY

SECRETARIES FOR THE OSTENSIBLE PURPOSE OF REPORTING ON HIS US TRIP. HOWEVER, THE MEETING ALSO SERVED TO REASSERT ANDREOTTI'S GOVERNMENTAL LEADERSHIP POSITION WITH RESPECT TO IMPLEMENTATION OF THE PROGRAM ACCORD, A SUBJECT WHICH DC AND OTHER PARTY LEADERS HAVE HITHERTO PREFERRED TO WORK OUT IN PARLIAMENT.

3. STILL, THE PRIME MINISTER'S ACHIEVEMENTS HAVE ONLY MARGINALLY IMPROVED HIS ACCEPTABILITY WITHIN HIS OWN PARTY. MANY DC LEADERS AND PARTY RANK-AND-FILE REGARD HIM WITH MISGIVINGS, FEARING EITHER THAT HE IS EVENTUALLY PREPARED TO MAKE A DEAL WITH THE COMMUNISTS OR THAT HIS PERSONAL PRESTIGE IS RISING TO THE DETRIMENT OF OTHER DC LEADERS. THE OFFICIAL PARTY PAPER HAS TAKEN PAINS TO STRESS THAT ANDREOTTI'S US SUCCESS WAS DUE TO THE PARTY'S (READ MORO'S) ACCOMPLISHMENTS IN DEFENDING ITS INTERESTS DURING THE NEGOTIATIONS LEADING UP TO THE PROGRAM ACCORD. COMMUNIST REACTION TO THE VISIT WAS GENERALLY POSITIVE (ROME 12555), AND THE PCI DAILY L'UNITA PORTRAYED THE PRESIDENT'S WARM WELCOME FOR ANDREOTTI AS A SIGN THAT THE CARTER ADMINISTRATION IS WILLING TO DEAL WITH THE PCI WITHOUT "DISCRIMINATION" OR "PRECONCEPTIONS." THE SMALL PARTIES WERE CAUTIOUS IN THEIR ASSESSMENT OF THE VISIT AND EXPRESSED SURPRISE AT THE "TRIUMPHANT" TONE OF ITALIAN PRESS COVERAGE, POINTING OUT THAT THE COUNTRY'S ECONOMIC AND PUBLIC ORDER

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PROBLEMS HAVE YET TO BE SOLVED. IN THIS THEY WERE JOINED BY SOME BUSINESS FIGURES WHO ASSERTED THAT THE ECONOMIC SITUATION IS LESS ROSY THAN PAINTED BY ANDREOTTI.

4. CONCRETE RESULTS OF THE VISIT WERE SEEN PRIMARILY IN 1) THE US "PROMISE" TO FINANCE A SUBSTANTIAL PORTION OF ITALY'S NUCLEAR REACTOR PROGRAM, AND 2) A FORTHCOMING "INVESTMENT CONFERENCE" (TO BE HELD IN NOVEMBER) WHEREIN 80-100 US INDUSTRIALISTS ARE TO CONVENE IN ROME TO "RELAUNCH INVESTMENTS IN ITALY," ESPECIALLY IN THE DEPRESSED SOUTH. THE LATTER, A GOVERNMENT ROUNDTABLE SEMINAR INITIATED BY BUSINESS INTERNATIONAL FOR THEIR CLIENTS AND CO-SPONSORED BY THE GOI, HAS RECEIVED PARTICULARLY STRONG PRESS COMMENTARY, STIMULATED IN PART BY STATEMENT BY THE PRIME MINISTER HIMSELF. IT IS POSSIBLE THAT THIS PRESS PLAY MAY RESULT IN EXAGGERATED EXPECTATIONS.

5. IN THE ENERGY SECTOR, THE PRESS HAS ENTHUSIASTICALLY (AND WITH SOME EXAGGERATION) REPORTED US PROMISES TO ASSIST SUBSTANTIALLY IN FINANCING THE COSTS OF THE 12 NUCLEAR POWER PLANTS ENVISAGED IN THE ITALIAN ENERGY

PLAN. HOWEVER, SOME QUARTERS, PARTICULARLY THE SOCIALISTS, HAVE QUESTIONED HEAVY DEPENDENCE ON US TECHNOLOGY AND FUEL SUPPLIES AND HAVE SUGGESTED A "EUROPEAN SOLUTION." THERE IS ALSO PRESS SPECULATION THAT THE GOI MAY BUILD A FAST BREEDER REACTOR OF THE SUPER PHEONIX TYPE AROUND 1983-84. HOWEVER, PRESS SOURCES CITE NUCLEAR INDUSTRY REPRESENTATIVES AS CONSIDERING IT UNLIKELY GOI WILL EVEN DECIDE TO BUILD A FAST BREEDER REACTOR BEFORE 1983-85.

6. ECONOMIC SITUATION. IN THE ECONMY GENERALLY, THERE IS EVIDENCE BUILDING THAT THE ECONOMIC DOWNTURN WHICH HAS BEEN FORECAST FOR THE SECOND HALF OF 1977, AS THE ECONOMIC STABILIZATION PROGRAM BEGAN TO BITE, IS CONFIDENTIAL

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BEGINNING TO TAKE PLACE, PERHAPS DROPPING A LITTLE MORE QUICKLY AND SHARPLY THAN EXPECTED. DATA FOR THE FIRST QUARTER GDP SHOW AN INCREASE AT AN ANNUAL RATE OF 4 PERCENT. REAL INCREASE FOR 1977, HOWEVER, IS NOT

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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O R 171718Z AUG 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC IMMEDIATE 6582
INFO AMCONSUL FLORENCE
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EXPECTED TO EXCEED 2 TO 2.5 PERCENT. IF INVESTMENT

AND EXPORTS PICK UP AS EXPECTED IN 1978, GROWTH RATE COULD BE SLIGHTLY HIGHER IN 1978. FROM NOVEMBER THROUGH MARCH 1977 INDUSTRIAL PRODUCTION WAS NEARLY FLAT BUT BEGAN TO DECREASE IN APRIL, MAY, AND JUNE. THE MOST RECENT SURVEY OF BUSINESSES INDICATES THAT PLANT CAPACITY UTILIZATION HAS DIMINISHED TO 73.4 PERCENT IN THE SECOND QUARTER OF 1977 COMPARED TO 75.1 AND 75.6 PERCENT IN THE PREVIOUS TWO QUARTERS. NEVERTHELESS, IN THE FIRST FIVE MONTHS OF 1977, AVERAGE INDUSTRIAL PRODUCTION WAS 7.4 PERCENT ABOVE THE SAME PERIOD OF 1976.

7. THE RATE OF PRICE INFLATION HAS, ON THE OTHER HAND, BEEN IMPROVING SOMEWHAT MORE RAPIDLY THAN ANTICIPATED. WHILE THE JULY COST-OF-LIVING INDEX WAS 20.3 PERCENT ABOVE THE PREVIOUS YEAR, THE MONTH TO MONTH RATE HAS SLOWED (JULY OVER JUNE) TO .08 PERCENT. WHOLESALE PRICES ARE IMPROVING EVEN MORE RAPIDLY WITH THE JUNE TO JULY RATE ONLY 16.3 PERCENT AND THE JUNE OVER MAY RISE OF ONLY 0.3 PERCENT.

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8. THE RAPID SLOWING OF INDUSTRIAL PRODUCTION GIVERS RISE TO CONCERN FOR EMPLOYMENT LEVELS THROUGH THE REMAINDER OF THE YEAR. EVEN THOUGH A NEW STATISTICAL SERIES NOT EASILY COMPARABLE TO THE OLD SERIES WAS INTRODUCED FOR EMPLOYMENT IN JANUARY, IT NEVERTHELESS SUGGESTS THAT THE WORK FORCE IS INCREASING MORE RAPIDLY THAN THE NUMBER OF JOBS. UNEMPLOYMENT IS THEREFORE LIKELY TO INCREASE SOMEWHAT DURING THE YEAR, PERHAPS AT A MORE RAPID RATE THAN PREVIOUSLY THOUGHT. THE FIRST SIGN-UP PERIOD UNDER THE NEW LAW TO ASSIST UNEMPLOYED YOUTH HAS JUST BEEN COMPLETED AND SOME 650,000 UNEMPLOYED YOUTHS WERE REGISTERED. THE GOVERNMENT MAY WELL HAVE DIFFICULTY IN ELICITING SUFFICIENT COOPERATION ON THE PART OF PRIVATE ENTERPRISE TO PLACE SO MANY IN THIS INITIAL PHASE OF THE PROGRAM.

9. ON THE EXTERNAL SIDE, IMPROVEMENT IN THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS ALSO APPEARS TO BE TAKING PLACE MORE RAPIDLY THAN FORECAST. ALTHOUGH DEFINITIVE DATA IS ONLY AVAILABLE THROUGH THE FIRST QUARTER (CURRENT ACCOUNT DEFICIT OF \$923 MILLION), IT APPEARS THAT THERE WAS ROUGH BALANCE IN THE SECOND QUARTER. THIS IS ONLY PARTLY DUE TO FAVORABLE SEASONAL FACTORS. WHILE DETAILED DATA ON SERVICES IS NOT YET AVAILABLE FOR THE SECOND QUARTER, THERE ARE CLEAR INDICATIONS THAT THIS PERIOD IS EVEN STRONGER THAN USUAL THIS YEAR. IN SUM, CURRENT ACCOUNT COULD WELL BE IN BALANCE FOR 1977. SUCH PERFORMANCE WOULD BE MUCH BETTER

THAN THE TARGETS AGREED UPON WITH THE IMF AND THE EC.

10 THE ITALIAN PERFORMANCE AGAINST THE OTHER TARGETS
AND GUIDELINES AGREED TO WITH THE IMF AND EC ARE ALSO
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WELL ON TRACK, WITH SOME MARGIN TO SPARE ON THE NET
TREASURY DEFICIT, CENTRAL BANK FINANCING OF THAT
DEFICIT, COST-OF-LIVING INCREASES AS MEASURED BY THE
WAGE ESCALATOR, AND CENTRAL GOVERNMENT EXPENDITURES.
POSSIBLE "PROBLEM" AREAS THAT CAN BE FORESEEN AT THIS
POINT CONCERN CENTRAL GOVERNMENT EXPENDITURES, DOMESTIC
CREDIT EXPANSION, "ENLARGED DEFICIT" CEILING, AND
POSSIBLY CENTRAL BANK FINANCING OF THE TREASURY DEFICIT.

11. AFTER THE INTENSIVE EFFORTS OF THE GOVERNMENT
THROUGH THE LATTER HALF OF 1976 NAD THE FIRST HALF OF
1977 TO PUT TOGETHER AN ECONOMIC STABILIZATION
PROGRAM, EFFORTS ARE NOW DIRECTED TOWARDS MONITORING
PERFORMANCE UNDER THAT PROGRAM AND EVOLVING SOLUTIONS
TO LONGER TERM, MORE COMPLEX STRUCTURAL PROBLEMS.
FOR EXAMPLE, THE COUNCIL OF MINISTERS' FALL
CALENDAR IS HEAVILY WEIGHTED WITH ECONOMIC ISSUES.
AMONG THESE ARE PLANS FOR EARLY APPROVAL OF A DRAFT
LAW TO ELIMINATE DOUBLE TAXATION OF DIVIDENDS,
THEREBY PROVIDING A TAX INCENTIVE FOR INVESTMENT
IN EQUITY MARKETS. BECAUSE OF THE UNAVAILABILITY OF
LONGER TERM CREDIT, THE CONSEQUENT BUSINESS DEPENDENCE
ON SHORT-TERM MONEY MARKETS HAS INCREASED DANGEROUSLY
IN THE PAST SEVERAL YEARS AND DEBT SERVICE IS NOW
OF SEVERE CONCERN TO BUSINESSMEN, TO ECONOMIC OBSERVERS,
AND GOVERNMENT POLICYMAKERS ALIKE. THE REGULATORY
AGENCY OF THE ITALIAN STOCKMARKET (CONSOB) IS ALSO
DUE FOR A STATUTORY FACELIFT TO MAKE IT
MORE RESPONSIVE TO THE NEEDS OF BOTH BUSINESSES AND
INVESTORS. SEVERAL MEASURES TO DEAL WITH PUBLIC FINANCE
ARE ALSO ON THE HORIZON, SOME OF WHICH WILL "FINE TUNE"
TAX RATE SCHEDULES AND OTHER REVENUE LAWS, AND
SOME ARE AIMED AT REFORMING AND REVISING EXPENDITURE
PROCEDURES--SUCH AS LOCAL GOVERNMENT FINANCE REFORM.
THE FALL CALENDAR WILL ALSO INCLUDE CONSIDERATION OF
MAJOR REFORMS IN THE NATIONAL HEALTH AND HOSPITAL
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INSURANCE SYSTEMS AND THE PENSION SYSTEMS, BOTH OF
WHICH HAVE BECOME LARGE DEFICIT SPENDERS IN RECENT

YEARS, WHICH THE CENTRAL GOVERNMENT EVENTUALLY HAS TO COVER. ALSO ON THE AGENDA IS A CONTROVERSIAL FAIR RENT LAW, WHICH WAS NOT DEALT WITH IN THE PROGRAM ACCORD.

12. AGENDA SUGGESTIONS. ANDREOTTI AND FORLANI WILL BE INTERESTED IN HEARING SECRETARY'S VIEWS ON: (A) PROSPECTS FOR PROGRESS ON SALT AND OTHER ARMS CONTROL NEGOTIATIONS, FOLLOWING HIS VIENNA TALKS; (B) THE CURRENT STATE OF US/SOVIET RELATIONS; (C) SOVIET EXPECTATIONS REGARDING THE BELGRADE CSCE REVIEW CONFERENCE AND WESTERN TREATMENT OF HUMAN RIGHTS QUESTIONS THERE; (D) PROSPECTS FOR MOVEMENT ON THE ARAB/ISRAELI FRONT, FOLLOWING THE SECRETARY'S RECENT VISIT TO THE MIDDLE EAST; (E) A PEACEFUL DENOUEMENT OF THE RHODESIAN PROBLEM.

13. WE SUGGEST THAT THE SECRETARY: (A) THANK FORLANI FOR HIS TIMELY REPORT ON HIS CONVERSATION WITH THE SOMALI FOREIGN MINISTER (ROME 13203); (B) ALSO THANK FORLANI FOR UNDERSECRETARY RADI'S DEBRIEFING OF HIS VISIT TO ANGOLA AND MOZAMBIQUE (ROME 13202). ITALIANS ARE EAGER TO BE HELPFUL IN KEY AFRICAN AREA WHERE THEY SEE THEMSELVES AS PRINCIPAL DEFENDER OF WESTERN INTERESTS, AND WOULD BE PLEASED TO CONVEY ANY MESSAGE USG WISHED TO SEND TO ANGOLAN AUTHORITIES; (C) ASK ANDREOTTI FOR PROGNOSIS REGARDING CONTINUING GOI ABILITY TO MEET IMF GOALS DURING SECOND HALF 1977 AND INTO 1978, AND TO AKE NEW, LONG TERM MEASURES ANTICIPATED IN GOVERNMENT'S ECONOMIC POLICY AGENDA (ROME 12780).
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14. PRIMEMINISTER WILL BE PARTICULARLY INTERESTED IN ANY FOLLOW-UP OR NEW DEVELOPMENTS RELATING TO FINANCING OF THE ITALIAN NUCLEAR POWER PROGRAM, AS WELL AS WAYS OF MEETING ITALIAN NEEDS FOR ASSURED SUPPLIES OF NATURAL URANIUM.
HOLMES

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Sent Date: 17-Aug-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ROME13374
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770297-0228
Format: TEL
From: ROME
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Legacy Key: link1977/newtext/t19770852/aaaabsey.tel
Line Count: 322
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ae1d6b59-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 19-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1575920
Secure: OPEN
Status: NATIVE
Subject: SECRETARY'S ROME STOPOVER--BRIEFING MATERIAL
TAGS: OVIP, IT, US, (VANCE, CYRUS R)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/ae1d6b59-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009